

**SCIENCE HILL INDEPENDENT
SCHOOL DISTRICT**

AUDITED FINANCIAL STATEMENTS

for the year ended June 30, 2018

C O N T E N T S

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	3 - 6
BASIC FINANCIAL STATEMENTS	
DISTRICT-WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET POSITION	7
STATEMENT OF ACTIVITIES	8
FUND FINANCIAL STATEMENTS:	
BALANCE SHEET - GOVERNMENTAL FUNDS	9
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	10
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	11
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES	12
BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS	13
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS	14
STATEMENT OF NET POSITION - PROPRIETARY FUND	15
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUND	16
STATEMENT OF CASH FLOWS - PROPRIETARY FUND	17
STATEMENT OF NET POSITION - FIDUCIARY FUND	18
NOTES TO THE FINANCIAL STATEMENTS	19-42

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT'S PROPRTIONATE SHARE OF THE CERS NET PENSION LIABILITY	45
SCHEDULE OF CONTRIBUTIONS TO CERS	46
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CERS	47
SCHEDULE OF DISTRICT'S PROPRTIONATE SHARE OF THE KTRS NET PENSION LIABILITY	48
SCHEDULE OF CONTRIBUTIONS TO KTRS	49
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - KTRS	50
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MEDICAL INSURANCE PLAN KTRS	51
SCHEDULE OF CONTRIBUTIONS TO MEDICAL INSURANCE PLAN - KTRS	52
NOTES TO OPEB MEDICAL INSURANCE PLAN - KTRS	53
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - LIFE INSURANCE PLAN KTRS	54
SCHEDULE OF CONTRIBUTIONS TO LIFE INSURANCE PLAN - KTRS	55
NOTES TO OPEB LIFE INSURANCE PLAN - KTRS	56
BALANCE - BUDGET AND ACTUAL - GENERAL FUND	57
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND	58
STATEMENT OF RECEIPTS AND DISBURSEMENTS - SCHOOL ACTIVITY FUND	59
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	60-61
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	62
MANAGEMENT LETTER	63 -64

Barry D. Daulton, CPA, PSC
Certified Public Accountant
423 East Mount Vernon Street
P.O. Box 1424
Somerset, Kentucky 42502
(606) 679-9344

INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Science Hill Independent Schools
Science Hill, Kentucky 42553

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Science Hill Independent Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note M to the financial statements, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. My opinion is not modified with respect to this item.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 3 through 6, budgetary comparison information and schedules of District's proportionate share of net pension liabilities and analysis and schedules of required contributions on pages 37 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 13, 2018, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Barry D. Daulton, CPA, PSC

Somerset, Kentucky

November 13, 2018

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
Science Hill, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
For the year ended June 30, 2018
(Unaudited)

Management of the Science Hill Independent School District (District) provides to readers and users of the accompanying financial statements an analysis and overview presentation of the Board's financial activities for the year ended June 30, 2018. Readers and users are encouraged to consider the information presented herein in conjunction with the audited financial statements and supplementary information contained within this report.

Financial Highlights

The beginning unreserved general fund balance for the District was \$ 655,604.

The District's outstanding bond principal is \$ 2,230,100 at the end of fiscal year 2018.

The majority of district revenues were derived from state sources (72%). Regular instruction, student support services, instructional support services and school and district administration account for (81%) of the District's expenditures. The District's remaining expenditures include pupil transportation (3%), maintenance and operations (9%) and debt service (7%).

The District's unrestricted operating fund (General Fund) had \$2,377,746 in revenues, excluding on-behalf payments from the Commonwealth. Those revenues consist mainly of ad valorem taxes, SEEK funding and utility tax receipts.

District-Wide Financial Statements

The accompanying district-wide financial statements are designed to provide readers and users with a generally broad descriptive overview of the Board's financial activities. The statements are similar in nature to private-sector (non-governmental) statements.

The Statement of Net Position contains information on all Board assets and liabilities. The difference between these two amounts is reported as net position. When considered historically, increases or decreases in net position may provide a general indication of overall improvement or deterioration of the District's financial condition. Net position reflects the District's investment in capital assets (land, buildings, improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to students and are not available for future spending. Because the capital assets themselves cannot be used to liquidate the related liabilities, the resources needed to repay the debt must be provided from other sources.

In the Statement of Activities, changes in net position for the most recent fiscal year are presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Outlined in these financial statements are functions of the Board which are supported by local taxation and governmental activities. Governmental activities include, but are not limited to, instruction, support services, plant operation and maintenance and student transportation. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

Fund Financial Statements

Fund financial statements present a related group of accounts which maintain resources for a specific activity or objective. The MUNIS system is a mandated uniform system and chart of accounts used by all Kentucky public school districts. Use of fund accounting ensures compliance with finance-related statutory requirements. Board funds are separated into three categories; governmental, proprietary and fiduciary. Fiduciary (or trust) funds, commonly known as activity funds, aid in student education and support. Fiduciary funds are support by outside activities such as fund-raising and ticket sales. The district has no proprietary funds other than food service operations. Governmental funds report all other Board activities.

Notes to Financial Statements

Additional information necessary to better understand the district-wide financial statements is presented in the notes to financial statements on pages 19 through 42.

District-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$ 1,191,740 as of June 30, 2018. This reflects a decrease of \$ 1,490,786 from 2017 to 2018. The majority of this decrease is due to recognition of the OPEB net pension liability.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

<u>Net Position for the period ending</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Current Assets	567,703	875,835
Noncurrent Assets	4,860,649	4,906,058
Deferred Outflows	<u>531,786</u>	<u>319,415</u>
Total Assets and Deferred Outflows	5,960,138	6,101,308
Current Liabilities	243,540	203,825
Noncurrent Liabilities	3,118,115	3,343,208
Deferred Inflows	<u>179,462</u>	<u>14,106</u>
Total Liabilities and Deferred Inflows	3,541,117	3,561,139
Net Position		
Investment in Capital Assets (net of debt)	2,630,549	2,643,334
Restricted Fund balance	126,080	167,069
Unrestricted Fund Balance	<u>(2,189,739)</u>	<u>127,877</u>
Total Net Position	<u>566,890</u>	<u>2,938,280</u>
Governmental Revenues	4,235,896	4,079,165
Business Type Revenues	<u>329,975</u>	<u>324,782</u>
Total Revenues	4,565,871	4,403,947
Governmental Expenses	4,539,858	4,110,192
Business Type Expenses	<u>311,794</u>	<u>319,962</u>
Total Expenses	4,851,652	4,430,154
Change in Net Position	(285,781)	(26,207)
Change in Accounting Principle	(1,829,855)	-
Net Position Beginning	<u>2,682,526</u>	<u>2,708,733</u>
Net Position Ending	<u>566,890</u>	<u>2,682,526</u>

General Fund Revenue/Expenditures

The majority of the total General Fund revenue was derived from state revenue (77.16%).

The greatest amount of revenue (61.3%) was expended for instruction. Other significant expenditures were district administration (10.03%), plant operation and management (10.2%), instructional staff support which includes school libraries and district-wide instructional support staff (2.47%), school administrative support (15.07%), and student support services which includes health services, attendance services and guidance counseling (6.66%).

Special Revenue Fund Revenue/Expenditures

The majority (50.95%) of the Special Revenue's revenue was derived from state sources with federal revenue making up (47.12%). The largest expenditure for the fund was for instruction, which was (84.99%) of the fund's total expenditures. Student support services was (5.09%) of the total expenditures.

Capital Outlay Fund and Building Fund Revenue/Expenditures

The Capital Outlay Fund's revenue is received from the state funding program (SEEK). The Building Fund receives revenue from both state funding and local taxes. During this year the majority of these funds were transferred to the debt service fund for paying on bonds sold in previous years for new and renovated facilities. This year the state allowed the district to use a portion of Capital Outlay funds for approved operation expenses that would have been funded through General Fund.

Debt Service Fund Revenue/Expenditures

The Debt Service Fund is used for paying debt service on bonds sold for new and renovated facilities. The fund receives a majority of its revenue from transfers from other funds primarily the Capital Outlay and Building Funds.

Food Service Fund Revenue/Expenditures

The School Food Service Fund is an enterprise fund, which receives revenue from federal (83.0%), state (5.2%) and local (11.8%) sources. Expenditures for this fund are for food service staff, food, supplies and equipment.

Financial Management

Interested readers and users, taxpayers, citizens and creditors are encouraged to contact Board administration with questions regarding this report or requests for additional information. The comments should be directed to Jimmy Dyehouse, Superintendent or Jamey Tilley, Director of Business Operations at (606) 423-3341. The District mailing address is 6007 North Highway 27, Science Hill, Kentucky 42553.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - DISTRICT WIDE
June 30, 2018

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 454,329	\$ 56,088	\$ 510,417
Accounts receivable	38,962	-	38,962
Inventories for consumption		18,324	18,324
Capital assets:			
Land	51,625		51,625
Land improvements, net of deprec	41,629		41,629
Other capital assets, net of depreciation	4,632,765	134,630	4,767,395
TOTAL ASSETS	<u>\$ 5,219,310</u>	<u>\$ 209,042</u>	<u>\$ 5,428,352</u>
DEFERRED OUTFLOWS			
Deferred outflows related to pension expense	462,952	68,834	531,786
TOTAL DEFERRED OUTFLOWS	<u>\$ 462,952</u>	<u>\$ 68,834</u>	<u>\$ 531,786</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 5,682,262</u>	<u>\$ 277,876</u>	<u>\$ 5,960,138</u>
LIABILITIES			
Short-term liabilities			
Accounts payable	\$ 14,555	\$ -	\$ 14,555
Long-term liabilities			
Due or payable within one year			
Bond obligations	228,985	-	228,985
Due or payable after one year			
Bond obligations	2,001,115	-	2,001,115
Net pension liability - KTRS OPEB	1,117,000	-	1,117,000
Net pension liability - CTRS OPEB	575,101	46,899	622,000
Net pension liability - CTRS	1,137,379	92,752	1,230,131
TOTAL LIABILITIES	<u>\$ 5,074,135</u>	<u>\$ 139,651</u>	<u>\$ 5,213,786</u>
DEFERRED INFLOWS			
Deferred inflows related to pension expense	153,628	25,834	179,462
TOTAL DEFERRED INFLOWS	<u>153,628</u>	<u>25,834</u>	<u>179,462</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>\$ 5,227,763</u>	<u>\$ 165,485</u>	<u>\$ 5,393,248</u>
NET POSITION			
Net investment in capital assets	2,495,919	134,630	2,630,549
Restricted for:			
Sick leave	126,080	-	126,080
Unrestricted	(2,167,500)	(22,239)	(2,189,739)
TOTAL NET POSITION	<u>454,499</u>	<u>\$ 112,391</u>	<u>\$ 566,890</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 5,682,262</u>	<u>\$ 277,876</u>	<u>\$ 5,960,138</u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
for the year ended June 30, 2018

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS		GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
			GRANTS	CAPITAL GRANTS AND CONTRIBUTIONS			
Governmental activities							
Instructional	\$ 2,850,906	\$ -	\$ 492,411	\$ -	\$ (2,358,495)	\$ -	\$ (2,358,495)
Student support services	277,934	-	-	-	(277,934)	-	(277,934)
Staff support services	95,230	-	-	-	(95,230)	-	(95,230)
District administration	381,006	-	-	-	(381,006)	-	(381,006)
School administration	35,533	-	-	-	(35,533)	-	(35,533)
Business support services	156,063	-	-	-	(156,063)	-	(156,063)
Plant operation and maintenance	462,414	-	-	-	(462,414)	-	(462,414)
Student transportation	161,040	-	-	-	(161,040)	-	(161,040)
Community service	42,449	-	-	-	(42,449)	-	(42,449)
Facility acquisition/construction	-	-	-	-	-	-	-
Debt service	77,283	-	-	191,624	114,341	-	114,341
Total governmental activities	4,539,858	-	492,411	191,624	(3,855,823)	-	(3,855,823)
Business-type activities							
Food service	311,794	38,681	273,975	-	-	862	862
Total business-type activities	311,794	38,681	273,975	-	-	862	862
Total school district	\$ 4,851,652	\$ 38,681	\$ 766,386	\$ 191,624	\$ (3,855,823)	862	(3,854,961)
General revenues:							
Taxes							
State aid - formula grants					844,741	-	844,741
Investment earnings					2,630,541	17,214	2,647,755
Fund transfers					4,783	-	4,783
Miscellaneous					71,796	105	71,901
Total general and special revenues					3,551,861	17,319	3,569,180
Change in net position					(303,962)	18,181	(285,781)
Net position - July 1, 2017, as previously reported					2,626,310	56,216	2,682,526
Restatement for adoption of GASB 75					(1,867,849)	37,994	(1,829,855)
Net position - June 30, 2018					\$ 454,499	\$ 112,391	\$ 566,890

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS				
Cash and cash equivalents	\$ 437,664	\$ 14,104	\$ 2,561	\$ 454,329
Accounts receivable	34,059	4,903	-	38,962
TOTAL ASSETS	<u>\$ 471,723</u>	<u>\$ 19,007</u>	<u>\$ 2,561</u>	<u>\$ 493,291</u>
LIABILITIES AND FUND BALANCES				
Accounts payable	(4,452)	19,007	-	14,555
TOTAL LIABILITIES	(4,452)	19,007	-	14,555
FUND BALANCE				
Restricted for:				
Accrued sick leave	126,080	-	-	126,080
District activities			2,561	2,561
Unassigned	350,095	-	-	350,095
TOTAL FUND BALANCES	<u>476,175</u>	<u>-</u>	<u>2,561</u>	<u>478,736</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 471,723</u>	<u>\$ 19,007</u>	<u>\$ 2,561</u>	<u>\$ 493,291</u>

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE DISTRICT-WIDE STATEMENT OF NET POSITION
June 30, 2018**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT
OF NET POSITION ARE DIFFERENT BECAUSE:

Total governmental fund balance		\$ 478,736
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	8,266,202	
Accumulated depreciation	<u>(3,540,183)</u>	4,726,019
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long term liabilities at year end consist of:		
Bonds payable		(2,230,100)
Net pension liability - CERS and related inflows / outflows		<u>(2,520,156)</u>
Total net position - governmental		<u><u>\$ 454,499</u></u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2018

	GENERAL FUND	SPECIAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues				
Taxes	\$ 735,223	\$ -	\$ 109,518	\$ 844,741
Earnings on investments	4,783	-	-	4,783
State sources	2,630,541	254,420	191,624	3,076,585
Federal sources	1,937	228,591	-	230,528
Other sources	36,723	9,400	25,673	71,796
Total revenues	3,409,207	492,411	326,815	4,228,433
Expenditures				
Instructional	2,318,811	422,073	23,112	2,763,996
Student support services	251,905	25,287	-	277,192
Staff support services	93,389	1,044	-	94,433
District administration	379,390	-	-	379,390
School administration	35,533	-	-	35,533
Business support services	154,994	1,069	-	156,063
Plant operation/maintenance	385,853	4,700	424	390,977
Student transportation	142,503	-	-	142,503
Community service	-	42,449	-	42,449
Debt service	20,634	-	269,200	289,834
Total expenditures	3,783,012	496,622	292,736	4,572,370
Excess (deficit) of revenues over expenditures	(373,805)	(4,211)	34,079	(343,937)
Other financing sources (uses):				
Operating transfers in	34,442	7,134	267,987	309,563
Operating transfers out	(7,134)	(2,923)	(299,506)	(309,563)
Total other financing sources (uses)	27,308	4,211	(31,519)	-
Net change in fund balances	(346,497)	-	2,560	(343,937)
Fund balances July 1, 2017	822,672	-	-	822,672
Fund balances June 30, 2018	\$ 476,175	\$ -	\$ 2,560	\$ 478,735

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
for the year ended June 30, 2018**

Amounts reported for governmental activities in the statement of net position are different because:

Net changes - governmental funds:	\$ (343,937)
Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay and disposals for the year.	(180,039)
District pension contributions are reported as expenditures in the governmental funds when made but are reported as deferred outflows in the Statement of Net Position because the reported Net Pension Liability is measured a year before pension expense.	
Change in net pension liability, pension expense, and related deferred inflows and outflows	439,019
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Principal paid	<u>(219,005)</u>
Changes in net position - governmental funds	<u>\$ (303,962)</u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2018

	<u>CAPITAL OUTLAY</u>	<u>BUILDING FUND</u>	<u>CONSTRU CTION FUND</u>	<u>DISTRICT ACTIVITY FUND</u>	<u>TOTAL</u>
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 2,560	\$ 2,560
TOTAL ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,560</u>	<u>2,560</u>
LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted for district activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,560</u>	<u>2,560</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,560</u>	<u>\$ 2,560</u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2018

	CAPITAL OUTLAY	BUILDING FUND	DEBT SERVICE	DISTRICT ACTIVITY FUNDS	TOTAL NON-MAJOR GOV'T FUNDS
REVENUES					
Taxes	\$ -	\$ 109,518	\$ -	\$ -	\$ 109,518
State sources	33,968	156,444	1,212	\$ -	191,624
Local sources	-	-	-	25,673	25,673
Total revenues	33,968	265,962	1,212	25,673	326,815
EXPENDITURES					
Instruction	-	-	-	23,112	23,112
Plant operations & maintenance	424	-	-	-	424
Debt service	-	-	269,200	-	269,200
Total expenditures	424	-	269,200	23,112	292,736
Excess (deficit) of revenues over expenditures	33,544	265,962	(267,988)	2,561	34,079
Other financing sources (uses):					
Operating transfers out	-	-	267,988	(1)	267,987
Operating transfers in	(33,544)	(265,962)	-	-	(299,506)
Total other financing sources (uses)	(33,544)	(265,962)	267,988	(1)	(31,519)
Net change in fund balance	-	-	-	2,560	2,560
Fund balance July 1, 2016	-	-	-	-	-
Fund balance June 30, 2018	\$ -	\$ -	\$ -	\$ 2,560	\$ 2,560

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2018

	ENTERPRISE FUNDS FOOD SERVICE
ASSETS	
Current assets	
Cash and cash equivalents	\$ 56,088
Accounts receivable	-
Inventories for consumption	<u>18,324</u>
Total current assets	74,412
Noncurrent assets	
Buildings and improvements	243,882
Furniture and equipment	104,263
Accumulated depreciation	<u>(213,515)</u>
Total noncurrent assets	<u>\$ 134,630</u>
TOTAL ASSETS	<u>\$ 209,042</u>
DEFERRED OUTFLOWS	
Deferred outflows related to pension expense	68,834
TOTAL DEFERRED OUTFLOWS	<u>\$ 68,834</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$ 277,876</u></u>
LIABILITIES	
Total current liabilities	\$ -
Total noncurrent liabilities	-
Net pension liability - CERS OPEB	46,899
Net pension liability - CERS	<u>92,752</u>
TOTAL LIABILITIES	<u>\$ 139,651</u>
DEFERRED INFLOWS	
Deferred inflows related to pension expense	25,834
TOTAL DEFERRED INFLOWS	<u>\$ 25,834</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u><u>\$ 165,485</u></u>
NET POSITION	
Invested in assets, net of debt	134,630
Unrestricted	<u>(22,239)</u>
TOTAL NET POSITION	<u><u>\$ 112,391</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 277,876</u></u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2018

	ENTERPRISE FUNDS
	FOOD SERVICE
OPERATING REVENUES	
Lunchroom sales	\$ 38,681
Total operating revenues	38,681
OPERATING EXPENSES	
Food service operations	311,794
Total operating expenses	311,794
Operating income (loss)	(273,113)
NONOPERATING REVENUES (EXPENSES)	
Interest on investments	105
Miscellaneous	273,975
Federal grants	17,214
State grants	291,294
Total nonoperating revenues	291,294
Change in net position	18,181
Net position July 1, 2017	56,216
Restatement for adoption of GASB 75	37,994
Net position June 30, 2018	\$ 112,391

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
for the year ended June 30, 2018

Cash flows from operating activities:	
Cash received from lunchroom sales	\$ 38,786
Cash received from federal and state reimbursements	291,189
Cash payments to employees for services	(115,080)
Cash payments to suppliers	(191,917)
Operating transfers	<u>-</u>
Net cash provided by operating activities	22,978
Cash flows from investing activities	
Interest Income	<u>-</u>
Net cash provided by investing activities	<u>-</u>
Net increase in cash equivalents	22,978
Cash and cash equivalents July 1, 2017	<u>33,110</u>
Cash and cash equivalents June 30, 2018	<u><u>\$ 56,088</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ (273,008)
Non-operating revenue	291,189
Depreciation	7,727
Effect of Increases and Decreases in Current Assets and Liabilities:	
Accounts receivable	<u>-</u>
Inventory	<u>(2,930)</u>
Net cash provided by operating activities	<u><u>\$ 22,978</u></u>
Schedule of non-cash transactions	
Donated commodities	<u><u>\$ 21,409</u></u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
June 30, 2018

	<u>Student Activity Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 29,317</u>
TOTAL ASSETS	<u>29,317</u>
LIABILITIES	
Due to student groups	<u>29,317</u>
TOTAL LIABILITIES	<u>\$ 29,317</u>

The accompanying notes are an integral part of these statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Science Hill Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Science Hill Independent School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as Board members are elected by the public and have decision-making authority, the power to designate management and the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all the funds and account groups relevant to the operation of the Science Hill Independent School District. The financial statements presented herein do not include funds of groups and organizations which, although associated with the school system, have not originated within the Board itself such as booster organizations, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

The accounting policies of the Science Hill Independent School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts and generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB).

District-Wide and Fund Financial Statements

The statement of net position and the statement of activities are district-wide financial statements. They report information on all of the District's nonfiduciary activities with interfund activities removed. Governmental activities include programs supported primarily by taxes, state funding and allocations and other intergovernmental revenues.

Fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary and fiduciary. Because the resources in the fiduciary funds cannot be used for District operations, they are not included in the district-wide statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description along with the restrictions associated with each class of funds are as follows:

I. Governmental Fund Types

- A. The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use.
- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balance are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Federal Financial Assistance included in this report. Accounts receivable in the Special Revenue Fund represent amounts due to the District through various grant agreements. Conversely, deferred revenues represent funds received by the District not yet spent under grant agreements.
- C. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the Kentucky School Facilities Construction Commission's funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

3. The Technology Fund accounts for the Kentucky Education Technology System (KETS) allocation and local district matching funds restricted for the purchase of technology consistent with the District's approved technology plan.

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

III. Proprietary Funds (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts for in-kind contribution of commodities from the USDA are recorded only in the proprietary Statement of Revenues, Expenses, and Changes in Fund Balance.

IV. Fiduciary Fund Type

The Activity Fund consists of Agency funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

V. Property Taxes

The District's property taxes are levied each year on the assessed value listed as of the prior January 1 for all real and business tangible property located in the District. Tax rates assessed were 68.1 cents per one hundred dollars of assessed value for real estate and tangible personal property. Motor vehicle taxes are assessed at 65.5 cents per one hundred dollars of assessed value. Property taxes collected are recorded as revenues in the fund for which they were levied.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP. During the budgetary process, revenues are projected in cash amounts to be received and expenditures are projected in cash amounts to be paid. Under GAAP, revenues and expenditures are recorded when susceptible to accrual.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary and fiduciary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until they are actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased, with the exception of the Proprietary Funds, which record inventory using the accrual basis of accounting.

Encumbrances

Encumbrances are reported as a reservation of the fund balance. They are not reported as disbursements until paid.

Payroll

District employees are paid once monthly throughout the calendar year. Payroll checks for the summer months were processed prior to June 30, 2018. The cash balances on June 30, 2018 have been reduced by the outstanding payroll checks.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund Balances

Restricted fund balances arise from external constraints (debt covenants, regulations, constitutional provisions, etc.) Committed fund balances are imposed by formal actions of the Board. Assigned fund balances are intended by the Board to be used for specific purposes, but are not formally restricted or committed. Unassigned fund balances are the residual amounts that are neither restricted, committed nor assigned for any specific purpose.

NOTE B - CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the District's cash and cash equivalents was \$ 648,895. Carrying amounts do not reflect deposits in transit or outstanding checks. Of the total cash balance, \$ 250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral held by the pledging banks' trust departments in the District's name.

Cash and cash equivalents at June 30, 2018 exclusive of activity and debt service funds, consisted of the following:

Cumberland Security Bank	Operating Account	\$ 510,417
--------------------------	-------------------	------------

NOTE C - BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Science Hill Independent School District and the Kentucky School Facilities Construction Commission.

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Science Hill Independent School District Finance Corporation and the Kentucky School Facilities Construction Commission to construct school facilities. The District has an option to purchase

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE C - BONDED DEBT AND LEASE OBLIGATIONS, continued

the property under lease at any time by retiring the bonds then outstanding.

At July 1, 2017 total indebtedness amounted to \$ 2,449,105. With no additions to long-term debt and timely principal and interest reductions, indebtedness at June 30, 2018 totaled \$ 2,230,100. The tables below set forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues and the addition and deduction of long-term debt for the current year.

2016R	District		SFCC		Annual Totals
	Principal	Interest	Principal	Interest	
2019	228,985	44,602	1,015	198	274,800
2020	233,965	40,022	1,035	178	275,200
2021	233,944	35,343	1,056	157	270,500
2022	238,923	30,664	1,077	136	270,800
2023	248,901	25,886	1,099	114	276,000
2024	253,880	20,908	1,120	92	276,000
2025	258,857	15,830	1,143	70	275,900
2026	263,834	10,653	1,166	47	275,700
2027	268,811	5,376	1,189	24	275,400
	<u>\$ 2,230,100</u>	<u>\$ 229,284</u>	<u>\$ 9,900</u>	<u>\$ 1,016</u>	<u>\$ 2,470,300</u>

Addition and Deduction for Long Term Debt
June 30, 2018

	Beginning Balance 7/1/2017	Plus Additional Debt	Less Principal Payments	Ending Balance 6/30/2018
Bond Issue				
2016R	2,449,105	-	(219,005)	2,230,100
	<u>2,449,105</u>	<u>-</u>	<u>(219,005)</u>	<u>2,230,100</u>

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE D - RETIREMENT PLANS

Kentucky Teacher's Retirement

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System (CERS) covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System (KTRS) covers positions requiring teaching certification or otherwise requiring a college degree.

General Information About the County Employees Retirement System (CERS)

Plan description – Employees whose positions do not require beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provision of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that included financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov>.

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years' service or 65 year old
	Reduced retirement	At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old Or age 57+ and sum of service years plus age = 87
	Reduced retirement	At least 10 years' service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old Or age 57+ and sum of service years plus age = 87
	Reduced retirement	Not available

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE D - RETIREMENT PLANS, continued

Cost of living adjustments are provided at the discretion of the Kentucky General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years of service is required for death benefits prior to retirement and the employees must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay, and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years of service is required for nonservice-related disability benefits.

Contributions – Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The District matches at a rate of 19.18% of the employee's total covered compensation. The District's matching contributions total \$103,261 for the year ended June 30, 2018.

General Information about the Teachers' Retirement System of the Commonwealth of Kentucky (KTRS)

Plan description – The District's teaching certified employees and other employees whose positions require at least a college degree are provided pensions through KTRS – a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth of Kentucky. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE D - RETIREMENT PLANS, continued

Benefits provided – For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3% to be used in their benefit calculation. Effective July 1, 2008, the system has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three highest annual salaries to compute the final average salary. KTRS also provides disability for vested employees at the rate of 60% of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees, and \$5,000 for retired or disabled employees.

Cost of living increases are 1.5% annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions- Contribution rates are established by KRS. Non-university members are required to contribute 12.855% of their salaries to the System. The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions of the amount 16.105% of both salaries for local school district employees hired before July 1, 2008 and after July 1, 2008. For local school district members whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE D - RETIREMENT PLANS, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Science Hill Independent School District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$ <u>1,230,131</u>
State's proportionate share of the net pension liability associated with the District	\$ <u>15,957,595</u>

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the District's portion was .024984 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$ 1,208,404 related to CERS & OPEB. The District reported approximate deferred outflows of resources and deferred inflows of resources related to pension expense from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of Resources	OPEB Deferred Outflows of <u>Resources</u>	OPEB Deferred Outflows of <u>Resources</u>
Differences between expected and actual experience	\$ 1,526	\$ 31,226	\$ 0	\$ 14
Changes of assumptions	226,993	-		
Net difference between projected and actual earning on pension plan investments	97,425	82,210		
Changes in proportion and differences between District Contributions and proportionate share of contributions	30,287	66,012		
District contributions subsequent to the measurement date	<u>121,899</u>	<u>-</u>	<u>\$ 53,656</u>	<u>\$ 14</u>
Total	<u>\$ 478,130</u>	<u>\$ 179,448</u>	<u>\$ 53,656</u>	<u>\$ 14</u>

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE D - RETIREMENT PLANS, continued

\$ 121,899 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year ended June 30:	
2019	\$ 86,241
2020	77,320
2021	29,017
2022	15,796
Thereafter	-

Actuarial assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	2.30%	3.00%
Projected salary increases	2.00%	3.50 – 7.30%
Investment rate of return, net of investment expense & inflation	6.25%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2025 (set forward two years for males and on year for females). There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

For KTRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025 with a set forward for two years for males and one year for females. The last experience study was performed for the period July 1, 2010 – June 30, 2015. The most recent experience study as of June 30, 2016, will be reflected in the June 30, 2018 GASB 67 report.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated August 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE D - RETIREMENT PLANS, continued

expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital markets assumptions developed by the investment consultant are intended for use over a ten-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	42.0%	4.4%
Non U.S. Equity	20.0%	5.3%
Fixed Income	16.0%	1.5%
Additional Categories	9.0%	3.6%
Real Estate	5.0%	4.4%
Alternatives	6.0%	6.7%
Cash	<u>2.0%</u>	0.8%
Total	<u>100.%</u>	

Discount rate – For CERS, the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 4.49%. The projection of cash flows used to determine the discount rate assumed that plan member contribution rates, and the

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE D - RETIREMENT PLANS, continued

employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2038 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments through 2037, and a municipal bond index rate of 3.56% was applied to all periods of projected benefit payments after 2037. The Single Equivalent Interest Rate that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate – The following table presents the District's net pension liability calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one percentage point lower, or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	1,551,461	1,230,131	961,341
KTRS	3.49%	4.49%	5.49%
District's proportionate share of net pension liability	-	-	-

Pension plan fiduciary net positions – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

NOTE E - OPEB PLAN

Plan description – Teaching-certified employees of the Kentucky School District are provided OPEBs through the Teachers' Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://trs.ky.gov/financial-reports-information>.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE E – OPEB PLAN, continued

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans. The following information is about the TRS plans:

Medical Insurance Plan

Plan description – In addition to the OPEB benefits described above, Kentucky Revised Statute 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

Benefits provided – To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Contributions – In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three and three quarters percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the Science Hill School District reported a liability of \$1,117,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was .0609 percent, which was the same as its proportion measured as of June 30, 2016.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE E – OPEB PLAN, continued

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	1,117,000
State's proportionate share of the net OPEB liability associated with the District	<u>912,000</u>
Total	<u>\$ 2,029,000</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$53,656 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year ended June 30:	
2019	\$ 4
2020	4
2021	4
2022	4
Thereafter	-

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and Older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B Premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Municipal Bond Index Rate	3.56%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE E - OPEB PLAN, continued

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	60.0%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	4.5%	4.0%
Private Equity	5.5%	6.6%
High Yield	10.0%	4.3%
Other Additional Categories*	10.0%	3.3%
Cash (LIBOR)	1.0%	0.5%
Total	100.0%	

**Modeled as 50% High Yield and 50% Bank Loans.*

Discount rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE E – OPEB PLAN, continued

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 8.00%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Districts' net pension liability	\$ 2,363,000	\$ 1,117,000	\$ 1,751,000

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
Districts' net pension liability	\$ 1,699,000	\$ 1,117,000	\$ 2,436,000

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

Life Insurance Plan

Plan description – Life Insurance Plan – TRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the TRS Board of Trustees and the General Assembly.

Benefits provided – TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

Contributions – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross annual payroll of members is contributed by the state.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE E – OPEB PLAN, continued

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the Kentucky School District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$
State's proportionate share of the net OPEB liability associated with the District	8,000
Total	<u>\$ 8,000</u>

For the year ended June 30, 2018, the District recognized OPEB expense of \$2,000 and revenue of \$2,000 for support provided by the State.

Actuarial assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.56%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE E ~ OPEB PLAN, continued

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class*</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. Large Cap Equity	38.4%	4.3%
U.S. Small Cap Equity	2.6%	4.8%
Developed Int'l Equity	15.8%	5.2%
Emerging Markets Equity	4.2%	5.4%
Fixed Income - Inv Grade	16.0%	1.2%
Real Estate	6.0%	4.0%
Private Equity	7.0%	6.6%
High Yield	2.0%	4.3%
Other Additional Categories**	7.0%	3.3%
Cash (LIBOR)	1.0%	0.5%
Total	<u>100.0%</u>	

**As the LIF investment policy is to change, the above reflects the pension allocation and returns that achieve the target 7.5% long-term rate of return.*

***Modeled as 50% High Yield and 50% Bank Loans.*

Discount rate - The discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

For employees covered under CERS, the following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE E - OPEB PLAN, continued

	1% Decrease # (6.50%)	Current Discount Rate (7.50%)	1% Increase # (8.50%)
Systems' net pension liability	\$ 1,033,000	\$ 622,000	\$ 285,000

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS financial report.

NOTE F - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantors' review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE G - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE H - LUNCHROOM ACCOUNT/COMMODITIES

The Lunchroom Account keeps a current monthly inventory of the school in the Food Service Director's office at the Science Hill Independent Board of Education. The Food Service Director has filed timely all required reports and requests for reimbursement.

NOTE I - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District has obtained insurance for workers' compensation, errors and omissions, and general liability coverage.

Past and present members of Kentucky School Boards Insurance Trust (KSBIT) were required to pay additional, retroactive premiums to cover a \$60 million deficit in the Trust's general liability and workers'

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

compensation pools. The District opted to pay their assessment in three annual installments, with the first payment being due in August 2014.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

NOTE J - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 is detailed on page 42.

NOTE K - ON BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky from items including retirement and insurance. The amounts received for the fiscal year ended June 30, 2018 was \$ 684,074. These payments were recorded as follows:

General Fund	\$ 1,031,462
Debt Service	1,213
Food Service Fund	<u>17,214</u>
Total	\$ <u>1,049,889</u>

The expenditures for the on-behalf payments are summarized in the following table

Teachers' Retirement Systems	\$ 611,326
Health insurance	425,914
Life insurance	627
Administrative fees	5,196
HRA/Dental/Vision	17,588
Less federal reimbursement	(37,165)
KY Educational Network services	23,777
MUNIS Financial Management software	429
McAfee Virus Software and services	985
SFCC debt service payments	<u>1,212</u>
Total On Behalf payments	<u>\$ 1,049,889</u>

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE L - DEFICIT FUND BALANCES

The following funds ended the fiscal year with excess expenditures over revenues. The amounts were offset by transfers from other funds.

Debt service	\$ (267,987)
General fund	\$ (380,939)
Special revenue fund	\$ (14,383)

NOTE M - KTRS and CERS NET PENSION LIABILITY

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to government pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. In addition, the District was required to adopt GASB 75, "Accounting and Financial Reporting for Post Employment Benefits other than Pensions." GASB 75 replaces GASB 45 and was effective for Districts beginning July 1, 2017. Because GASB 75 required retrospective application, the beginning net OPEB liability was adjusted to reflect the retrospective application. The beginning net position on the Statement of Activities was reduced accordingly.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2018

NOTE L - DEFICIT FUND BALANCES

The following funds ended the fiscal year with excess expenditures over revenues. The amounts were offset by transfers from other funds.

Debt service	\$ (267,987)
General fund	\$ (380,939)
Special revenue fund	\$ (14,383)

NOTE M - KTRS and CERS NET PENSION LIABILITY

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to government pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. In addition, the District was required to adopt GASB 75, "Accounting and Financial Reporting for Post Employment Benefits other than Pensions." GASB 75 replaces GASB 45 and was effective for Districts beginning July 1, 2017. Because GASB 75 required retrospective application, the beginning net OPEB liability was adjusted to reflect the retrospective application. The beginning net position on the Statement of Activities was reduced accordingly.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

CAPITAL ASSET NOTE DISCLOSURE

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES				
Land and improvements	325,980	-	-	325,980
Buildings and improvements	6,862,504	-	-	6,862,504
Technology equipment	328,985	-	-	328,985
Vehicles	548,588	-	-	548,588
General equipment	200,145	-	-	200,145
Totals at historical cost	8,266,202	-	-	8,266,202
Less accumulated depreciation for:				
Land and improvements	227,174	5,552	-	232,726
Buildings and improvements	2,238,600	140,306	-	2,378,906
Technology equipment	308,687	9,556	-	318,243
Vehicles	406,413	18,317	-	424,730
General equipment	179,270	6,308	-	185,578
Total accumulated depreciation	3,360,144	180,039	-	3,540,183
GOVERNMENTAL ACTIVITIES CAPITAL NET	<u><u>\$ 4,906,058</u></u>	<u><u>\$ (180,039)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,726,019</u></u>
PROPRIETARY ACTIVITIES				
Buildings and improvements	243,882	-	-	243,882
Technology equipment	-	-	-	-
General equipment	104,263	-	-	104,263
Totals at historical cost	348,145	-	-	348,145
Less accumulated depreciation for:				
Buildings and improvements	119,502	4,877	-	124,379
Technology equipment	-	-	-	-
General equipment	86,286	2,850	-	89,136
Total accumulated depreciation	205,788	7,727	-	213,515
PROPRIETARY ACTIVITIES CAPITAL NET	<u><u>\$ 142,357</u></u>	<u><u>\$ (7,727)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 134,630</u></u>

DEPRECIATION EXPENSE CHARGES TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instructional	\$ 86,910
Student support services	742
Staff support services	797
District administration	1,616
Business support services	-
Plant operation/maintenance	71,437
Student transportation	18,537
Total	<u><u>\$ 180,039</u></u>

This page intentionally left blank

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF THE DISTRICT'S
PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY
Last Five Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of the net pension liability					
District's proportionate share of the net pension liability	0.022076%	0.022076%	0.021167%	0.023099%	0.024984%
District's covered employee payroll	\$ 810,000	\$ 716,000	\$ 910,078	\$ 1,137,294	\$ 1,230,131
District's share of the net pension liability as a percentage of its cover employee payroll	\$ 504,940	\$ 492,071	\$ 495,931	\$ 511,338	\$ 538,381
Plan Fiduciary net position as a percentage of the total pension liability	160.42%	145.51%	183.51%	222.42%	228.49%
	61.22%	66.80%	59.97%	55.50%	53.32%

Note:

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF CONTRIBUTIONS TO CERS
Last Five Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required employer contribution*	\$ 95,373	\$ 86,949	\$ 84,606	\$ 95,518	\$ 121,899
Contributions made for required employer contribution	\$ (95,373)	\$ (86,949)	\$ (84,606)	\$ (95,518)	\$ (121,899)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 504,940	\$ 492,071	\$ 495,931	\$ 511,338	\$ 538,381
Employer contributions as a percentage of covered-employee payroll	18.89%	17.67%	17.06%	18.68%	22.64%

Note:

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CERS
June 30, 2018

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (2016).

Changes of assumptions –

The assumed investment rate of return decreased from 7.5% to 6.25%.

The assumed rate of inflation decreased from 3.25% to 2.30% which also resulted in a 0.95% decrease in the salary increase assumption at all years of service.

Payroll growth assumption was reduced from 4.00% to 2.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females).

For disabled members, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back four years for males) for the period after disability retirement.

Period covered by the required supplementary information – GASB Statement No. 68, "Accounting and Financial Reporting for Pensions", an amendment of GASB Statement No. 27 requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for four fiscal years and will expand this supplementary information in future financial statements to cover additional periods as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF THE DISTRICT'S
PROPORTIONATE SHARE OF THE KTRS NET PENSION LIABILITY
Last Five Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of the net pension liability					
District's proportionate share of the net pension liability	\$ 0.000000%	\$ 0.000000%	\$ 0.000000%	\$ 0.000000%	\$ 0.000000%
Commonwealth's proportionate share of the net pension liability associated with the District					
District's covered employee payroll	\$ 13,394,481	\$ 12,648,700	\$ 14,162,771	\$ 17,247,828	\$ 15,957,595
District's share of the net pension liability as a percentage of its cover employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%
Plan Fiduciary net position as a percentage of the total pension liability		45.59%	42.49%	35.22%	39.83%

Note:

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF CONTRIBUTIONS TO KTRS
Last Five Fiscal Years

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required employer contribution*	\$ 27,798	\$ 40,249	\$ 52,595	\$ 53,715	\$ 70,947
Contributions made for required employer contribution	\$ (27,798)	\$ (40,249)	\$ (52,595)	\$ (53,715)	\$ (70,947)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,929,008	\$ 1,929,009	\$ 1,862,837	\$ 1,833,139	\$ 1,858,377
Employer contributions as a percentage of covered-employee payroll	1.44%	2.09%	2.82%	2.93%	3.82%

Note:

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - KTRS
June 30, 2018

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (2016).

Changes of assumptions –

The assumed rate of inflation decreased from 3.50% to 3.00%.

The assumed rate of wage inflation decreased from .75% to .50%..

Payroll growth assumption range was reduced from 4.0% - 8.2% to 3.5% -7.3% .

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2025 (set forward two years for males and one year for females.)

For healthy retired members and beneficiaries, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2025 (set forward two years for males and one year for females.)

For disabled members, the mortality table used is RP-2000 Disabled Mortality Table projected with Scale BB to 2025 (set forward two year for males and seven for females).

Period covered by the required supplementary information – GASB Statement No. 68, “Accounting and Financial Reporting for Pensions”, an amendment of GASB Statement No. 27 requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for five fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF THE DISTRICT'S
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MEDICAL INSURANCE PLAN
Teachers' Retirement System Kentucky
Last Two Fiscal Years

	<u>2017</u>	<u>2018</u>
District's proportion of the net pension liability	0.060900%	0.060900%
District's proportionate share of the net pension liability	\$ 1,106,000	\$ 1,117,000
State's proportionate share of the net pension liability associated with the District	903,000	912,000
Total	<u>\$ 2,009,000</u>	<u>\$ 2,029,000</u>
District's covered employee payroll	\$ 1,788,533	\$ 1,788,533
District's share of the net pension liability as a percentage of its cover employee payroll	61.84%	62.45%
Plan Fiduciary net position as a percentage of the total pension liability	21.18%	21.18%

Note:

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF CONTRIBUTIONS TO MEDICAL INSURANCE PLAN
Teachers' Retirement System Kentucky
Last Two Fiscal Years

	<u>2017</u>	<u>2018</u>
Contractually required employer contribution*	\$ 53,656	\$ 53,656
Contributions made for required employer contribution	\$ (53,656)	\$ (53,656)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
 District's covered employee payroll	 \$ 1,788,533	 \$ 1,788,533
 Employer contributions as a percentage of covered-employee payroll	 3.00%	 3.00%

Note:

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB
Teachers' Retirement System Kentucky
June 30, 2018

Changes of benefit terms – With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the state will only finance, via its KEHP “Shared Responsibility” contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

Methods and assumptions used in the actuarially determined contributions – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as the of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2017:

Valuation date	June 30, 2016
Acturial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years, Open
Asset valuation method	Five-year smoothed value
Inflation	3.00%
Real wage growth	0.50%
Wage infaltion	3.50%
Salary increases, including wage inflation	3.50% -7.20%
Discount rtiae	8%
Health care costs trends	
Under 65	7.75 % for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Age 65 and older	5.75 % for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare and Part B premiums	1.02 % for FY 2017 with an ultimate rate of 5.00% by FY 2029
Under age 65 claims	the current premium charged by KEHP is used as the base cost amd is projected forward using only the health care trend assumption (no implicit rate subsidy is recognized).

**REQUIRED SUPPLEMENTAL SCHEDULE OF THE DISTRICT'S
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MEDICAL INSURANCE PLAN
Teachers' Retirement System Kentucky
Last Two Fiscal Years**

	<u>2017</u>	<u>2018</u>
District's proportion of the net pension liability	0.000000%	0.000000%
District's proportionate share of the net pension liability	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	8,000	12,000
Total	<u>\$ 8,000</u>	<u>\$ 12,000</u>
District's covered employee payroll	\$ 9,764	\$ 9,764
District's share of the net pension liability as a percentage of its cover employee payroll	0.00%	0.00%
Plan Fiduciary net position as a percentage of the total pension liability	79.99%	79.99%

Note:

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULE OF CONTRIBUTIONS TO MEDICAL INSURANCE PLAN
Teachers' Retirement System Kentucky
Last Two Fiscal Years

	<u>2017</u>	<u>2018</u>
Contractually required employer contribution*	\$ 537	\$ 537
Contributions made for required employer contribution by State	\$ (537)	\$ (537)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
 District's covered employee payroll	 \$ 9,764	 \$ 9,764
 Employer contributions as a percentage of covered-employee payroll	 5.50%	 5.50%

Note:

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB
Teachers' Retirement System Kentucky
June 30, 2018

Changes of benefit terms – None

Methods and assumptions used in the actuarially determined contributions – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2017:

Valuation date	June 30, 2014
Acturial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years, Open
Asset valuation method	Market value
Inflation	3.50%
Real wage growth	0.50%
Wage infaltion	4.00%
Salary increases, including wage inflation	4.00% - 8.10%
Discount rtiae	8%

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR GENERAL FUND
for the year ended June 30, 2018

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
Revenues			
Taxes	\$ 799,518	\$ 735,223	\$ (64,295)
Earnings on investment	3,000	4,783	1,783
State sources	2,756,078	2,630,541	(125,537)
Federal sources	252,432	1,937	(250,495)
Other sources	40,400	36,723	(3,677)
Total revenues	3,851,428	3,409,207	(442,221)
Expenditures			
Instructional	2,262,104	2,318,811	(56,707)
Student support services	238,278	251,905	(13,627)
Staff support services	93,289	93,389	(100)
District administration	347,379	379,390	(32,011)
School administration	106,635	35,533	71,102
Business support services	133,257	154,994	(21,737)
Plant operation/maintenance	363,040	385,853	(22,813)
Student transportation	159,126	142,503	16,623
Debt service	291,285		291,285
Contingency	464,927	20,634	444,293
Total expenditures	4,459,320	3,783,012	676,308
Excess of revenues over expenditures	(607,892)	(373,805)	234,087
Other financing sources (uses)			
Operating transfers in	319,169	34,442	(284,727)
Operating transfers out	(309,878)	(7,134)	302,744
Total other financing sources (uses)	9,291	27,308	18,017
Net increase (decrease) in fund balance	(598,601)	(346,497)	637,588
Fund balance July 1, 2017	598,601	822,672	224,071
Fund balance June 30, 2018	\$ -	\$ 476,175	\$ 476,175

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON - SPECIAL REVENUE
for the year ended June 30, 2018**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES			
State sources	\$ 266,804	\$ 254,420	\$ (12,384)
Federal sources	252,432	228,591	(23,841)
Other sources	<u>9,400</u>	<u>9,400</u>	<u>-</u>
Total revenues	528,636	492,411	(36,225)
EXPENDITURES			
Instructional	447,792	422,073	25,719
Student support services	34,147	25,287	8,860
Staff support services	1,045	1,044	1
Business support services	11,803	1,069	10,734
Plant operations & maintenance	4,700	4,700	-
Community services	<u>35,200</u>	<u>42,449</u>	<u>(7,249)</u>
Total expenditures	<u>534,687</u>	<u>496,622</u>	<u>38,065</u>
Excess (deficit) of revenues over expenditures	(6,051)	(4,211)	1,840
Other financing sources (uses):			
Operating transfers out	(1,949)	(2,923)	974
Operating transfers in	<u>8,000</u>	<u>7,134</u>	<u>(866)</u>
Total other financing sources (uses)	<u>6,051</u>	<u>4,211</u>	<u>(866)</u>
Net change in fund balance	-	-	-
Fund balance July 1, 2017	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance June 30, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
Science Hill, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
June 30, 2018

	Beginning Cash July 1, 2017	Receipts	Disbursements	Ending Cash June 30, 2018
8th Grade	14	10,193	8,849	1,358
Academic Team	76	629	465	240
Archery	2,954	19,772	20,251	2,475
Assignment Books	-	273	-	273
Baseball Boosters	958	1,020	846	1,132
Beta	650	501	546	605
Athletics	3,915	14,929	11,360	7,484
Boys Basketball Boosters	257	3,962	3,870	349
Car Tags	-	82	80	2
Cheerleaders	1,020	2,632	3,380	272
Chromebooks	-	21,759	21,759	-
Dance	100	2,326	2,132	294
Drama and annuals	3,162	4,889	4,852	3,199
General fund	2	5,464	5,359	107
Girls Basketball Boosters	357	1,598	1,256	699
Music	497	466	-	963
Pepsi	2,121	694	696	2,119
Softball Boosters	17	2,977	1,211	1,783
Student Council	127	16	143	-
Field trips	53	3,701	3,754	-
Soccer Boosters	245	9,421	8,482	1,184
Golf	3,567	2,530	2,597	3,500
Volleyball	-	7,418	6,139	1,279
		117,252	108,027	
Inter-fund transfers	-	-	-	-
Totals	\$ 20,092	\$ 117,252	\$ 108,027	\$ 29,317

BARRY D. DAULTON, CPA, PSC
POST OFFICE BOX 1424
SOMERSET, KENTUCKY 42502
(606) 679-9344

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Board of Education
Science Hill Independent Schools
Science Hill, Kentucky 42553

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School Districts Audits Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Science Hill Independent Schools as of and for the year ended June 30, 2018, which collectively comprise the District's basic financial statements and have issued my report thereon dated November 13, 2018.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Kentucky Public School Districts' Audit Contract and Requirements. There were additional matters communicated to the auditee in the management letter.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barry D. Daulton, CPA, PSC

Somerset, Kentucky
November 13, 2018

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT SUMMARY
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018**

There are no prior audit findings.

Barry D. Daulton, CPA, PSC
423 East Mount Vernon Street
P.O. Box 1424
Somerset, Kentucky 42502
(606) 679-9344

MANAGEMENT LETTER

November 13, 2018
Superintendent and Members of the Board of Education
Science Hill Independent School District
Science Hill, Kentucky 42553

In planning and performing my audit of the financial statements of Science Hill Independent School District for the year ended June 30, 2018, I considered the District's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

Current Year Conditions

Many of the comments were comments in prior year.

1. During testing it was noted that activity funds are handwritten with no automation. I recommend exploring activity fund software and computerizing the receipts and disbursements. EPES software was implemented in March 2018.
2. During testing, I noted no evidence of fund-raising approval by the Superintendent, Principal, or Board Council in the activity fund. I suggest the Board implement a fund-raising policy requiring approval from either of the latter before a fund-raising activity can be performed by the any group related to and using the District's name.
3. During testing, many instances of absence of purchase orders (PO) or PO dated after invoice. I suggest PO system be used as intended, as controls are not effective, if not properly followed.
4. During testing at the general fund level and the activity fund level, it was noted purchase orders were not used, many standard invoices had no back-up documentation, such as invoices or statements, and meals were reimbursed even when no overnight stay and some employees are not frugal when making meal purchases at the district's expense. I suggest, again, that PO's be used and payments not be made without proper documentation to back it up. The district should consider setting limits on meal reimbursements and consider only reimbursing meals when overnight stay is required as is customary with most other non-profit organizations.
5. During testing at the general fund level, it was noted sales tax was also paid because many times employees were reimbursed for purchases, they made personally. If an employee, is making a purchase to be reimbursed by the district, district finance personnel should provide that employee with an approved PO and be sure the vendor has the sales tax-exempt certificate on file to prevent the unnecessary expense of sales tax.
6. During testing at the general fund level, invoices had no stubs attached indicated they had been paid. It was difficult to locate the related invoice as no check number or stub was indicated on many paid invoices. I suggest that a check stub be attached to an invoice to indicate the invoice has been paid and with which check or payment method
7. During testing at the general fund level, it was also noted late fees were paid. District finance personnel should make sure all employees are reporting expenses timely and timely payments I suggest that timely payments should be made to prevent the unnecessary expense of late fees.
8. During testing, it was noted, the District finance officer, approved payment of invoices, writes the

checks, and signs the checks. I did note that later in the year, the finance officer prepared a listing of invoices for submission to the Board for approval.

9. During testing at the activity fund level, it was noted that the concession, multiple receipt forms, and ticket requisition forms were not properly completed. I suggest the person in charge of activity funds attend Red Book training and require personnel to follow proper Red Book procedures.
10. During the performance of my audit, I encountered material misstatements in the District's AFR. I was unable to obtain many routinely requested documents as the finance officer lacked the financial knowledge to produce them, although she was never uncooperative. I discovered sick and vacation days had not been properly used or accrued in MUNIS. I met with the Superintendent and upon my suggestion he hired an outside contractor to correct the misstatements in the District's AFR. I also, suggested he consider whether keeping the current finance officer was in the District's best interest as she appears to lack the knowledge necessary to perform her duties at this time.

I have reported on the District's internal control in my report dated November 13, 2018. This letter does not affect my report dated November 13, 2018, on the financial statements of Science Hill Independent School District. I wish to thank the personnel for their support and assistance during the audit.

This report is intended solely for the information and use of the Board and management of Science Hill Independent School District.

Sincerely,

Barry D. Daulton, CPA, PSC